

INITIAL STATEMENT OF REASONS NON-CONTROLLING SUMMARY

Sales and Use Tax Regulations 1602.5, Reporting Methods for Grocers

Specific Purpose

The purpose of the proposed amendments to California Code of Regulations, title 18, sections 1602.5, *Reporting Methods for Grocers* is to eliminate the obsolete requirement that grocers get State Board of Equalization approval before using an electronic scanning method to determine the amount of their sales of exempt food products.

Necessity

This regulation is necessary to in order to reflect the current widespread use and standardization of electronic scanning systems for tax reporting purposes and board staff's belief that the approval requirement in the regulation is no longer necessary and should be eliminated.

Factual Basis

Sales and Use Tax Regulation 1602.5 provides that in preparing sales and use tax returns, grocers may use any method of determining the amount of their sales of exempt food products which does not result in an overstatement of the exemption. Grocers are required to be prepared to demonstrate by records, which can be verified by audit, that the method used properly reflected their sales of exempt food products. The electronic scanning systems method is one of the prescribed methods grocers may use for reporting the tax.

At the time the regulation was updated in 1995, the use of scanners was a relatively new technology and there was a need to standardize and define what type of documentation was necessary to support reported taxable and nontaxable sales and verify the accuracy of the reporting system. Consequently, language was added to the regulation requiring grocers who were contemplating use of an electronic scanning system as a reporting method to notify the Board and submit a general outline of the proposed procedures for review and approval prior to using this reporting method.

Staff has now determined that the review and approval procedures are obsolete and proposes to amend Regulation 1602.5 by eliminating the requirement that grocers get Board approval before using an electronic scanning method to report the tax. Staff further recommends deleting the language urging grocers to seek Board approval prior to using the modified purchase ratio and the cost plus markup methods of reporting the tax.

No mandate Regarding Use of Specific Technologies

The proposed amendments do not mandate the use of specific technologies or equipment.

Initial Determination Regarding Alternatives

The Board does not believe that the proposed amendments will have any adverse impact on small business, and has made an initial determination that there are no reasonable alternatives to the proposed amendments, which would lessen any adverse impact on small business.